Q2 2005

It's like walking into a new store every day You never know what you'll find I am always surprised to find something in store I'd never find anywhere else Always shop here first - you'll find lots of what your family needs and save money as well It's a shopping experience like no other It's a treasure hunt Furniture, food, paint, housewares, hardware, clothing, sporting goods, toys, health and beauty…Liquidation World sells it all 1000's of everyday items Brand new, brand names The fun is contagious & the savings are too!

LIQUIDATION WORLD®

BRAND NEW • BRAND NAMES

our corporate profile

Brand new, brand name merchandise. Much of what you need for daily living – food, furniture, clothing, house wares, hardware, paint, and more – Liquidation World sells it all at prices that are often 50 percent or less of what you will find at traditional retail stores.

How do we do it? And, how have we done it for 18 profitable years running?

Liquidation World works closely with manufacturers, retailers, banks and insurance companies to help them deal with merchandise of almost every description that won't, or can't be sold through typical retail channels.

That may include merchandise from inventory overruns or packaging changes. Sometimes it means goods from bankruptcies, receiverships and insurance claims. But most of our goods are sourced from healthy, ongoing businesses – manufacturers who view Liquidation World as an indispensable part of their sales channel, and retailers who occasionally need help clearing excess stock.

We buy these goods with cash and at deep discounts, and pass the savings on to our retail customers through 105 fun, friendly and no frill Liquidation World outlets in Canada and the US. And that's where we have the most fun. Sharing our great bargains with value and quality conscious consumers.

We'll go half way around the world to buy a multi-million dollar deal. And, we'll go around the block to buy from a local business in need.

We never stop looking for a deal and neither should you.
Shop Liquidation World.
Brand new.
Brand names.

from our president and ceo

May 11, 2005

On February 18, 2005, I had the privilege of being named sole Chief Executive Officer of Liquidation World. Having worked for the company since 1991, it is an honour to lead our team of dedicated, enthusiastic employees into a rewarding and profitable future.

I take this position at a time of transition. We have a solid foundation to build on, but there is much more work we can do to better position ourselves in the marketplace to attract more customers and build our brand. It's my goal to reinvigorate our business and prepare for the future growth through natural, evolutionary changes. We've learned a lot about what our customers want and devoted much time to determining the most effective and efficient ways to grow our business; now is the time to put that research into action.

Naturally, with any transition period, some growing pains are unavoidable. There are always challenges associated with such transitional periods. And while we do our best to meet those challenges, it often takes longer than a few months to demonstrate how they will be best for the company. These transitional periods can have an affect on the bottom line, as we reorganize staff and reprioritize the work we do. While that is no excuse for poor performance, I hope it helps explain the results of the second quarter of 2005. As a flexible, opportunistic and entrepreneurial organization, we have a long history of success and are more accustomed to it than not.

We incurred a net loss of $6.5 million for the quarter, which consists of an operating loss of $4.3 million and inventory write-downs of $3.2 million ($2.2 million after tax recovery). Our operating loss is a reflection of a decrease of sales activity in our stores during the quarter. Part of that is due to two extraordinary event deals we had during the same quarter in 2004. Naturally, we can't predict the timing of such deals or replicate them at will, but we can work on improving how we manage our inventory levels, and that is something we will strive to do.

This loss is the result of the following:

1. Our decision to write-down aged and other inventory that was deemed to be unsaleable at prior prices. We are now implementing new policies and procedures to recognize underperforming inventory in a more timely manner. In addition, new processes and controls will avoid write-downs of this magnitude in the future.

2. A decision late in the first quarter that deliberately reduced purchasing and resulted in a shortage of inventory in our stores during the second quarter. This was reflected in our average transaction amounts and overall sales. Our work to develop a more focused purchasing team will avoid these issues in the future.

3. Operating costs that were not adjusted early enough to the lower sales activity we experienced during the quarter. Cost reduction initiatives were implemented during the latter part of the quarter, some of which are reflected in total selling and store expenses.

4. One-time unusual severance costs in the amount of $550,000 related to the departure of one of the company's executives.

These results are a reflection of the transitional times for our company in which we find ourselves today. We must become more disciplined in recognizing under-performing inventory and the cost associated with carrying these goods, in terms of the financial repercussions and our reputation among customers. We must also be much more diligent in dealing with under performing stores.

Our strategic plans reflect a fundamental truth in our business—that our customer expects an ever-changing and wide variety of merchandise in our stores. We are confident in an increasing availability of merchandise as global retailers place more pressure on their suppliers to manage merchandise; as such, the opportunities for our business continue to increase. We must, however, now marry the art of our business management with an appropriate degree of science. To that end, we are implementing a number of changes that will allow our buyers to focus more on the overall management of merchandise, including planning, allocation, merchandising and marketing, competitive analysis and global sourcing.

We are also formally creating a business development group, whose mandate is the marketing of our business to non-traditional sources of supply, which generate the unique and exciting inventories that fuel additional activity in our stores. There are a number of areas of this aspect of our business where we have a distinct advantage over many of our North American competitors. Understanding these areas and focusing our efforts accordingly through this dedicated team is appropriate at this stage in our company's development.

Although it is a small consolation, we are pleased to report that our selling expenses of $14.3 rose less than the increase in our store count, demonstrating that we are doing a better job of operating outlets efficiently. Excluding a one-time charge of $640,000 related to severance package costs in 2005, and $110,000 of expenses associated with the MMS project, we are also encouraged to report that our general and administration costs also increased at a lesser rate. This demonstrates quite clearly that, moving forward, we can continue to provide excellent products and service to our customers while keeping costs under control.

I'm convinced that with the five-year plan we are in the midst of putting into action, our results will improve quickly. We are currently implementing a number of key objectives that will not only boost our bottom line but realign our business for a profitable future. Those objectives include:

- Reorganization of our buying team. The buying team has been reorganized into two distinctive groups: those focused on our traditional sources of supply and having responsibility for distinctive categories and the other group focused on business development to search out special event deals.

- Implementation of merchandise management infrastructure. The realignment of our buying team is supported by the new merchandise management system we have selected and are implementing. While we do not expect the system to replace management excellence and good judgment, it will give us a better understanding of which product categories sell best in particular markets as well as more detailed information about on-hand inventory levels and trends.

- Outlet renovation. Following with the new look implemented in store openings, we have embarked on renovating 3 existing stores in Calgary. We will evaluate the results and implement a strategy for upgrading our existing stores.

- Update and expand the marketing of our brand. Our brand is one of our most valuable assets, so we are working to ensure we use it to the fullest extent. We will market our "Extreme Makeover: Liquidation World Edition" initiative in Calgary and a branding strategy that capitalizes on the current popularity of extreme value shopping. The results of which will drive our implementation strategy for other markets.

- Be a Deal Hunter and Be Rewarded program. We are implementing a program to enlist the more than 150,000 customers who shop our stores each week in the quest for great deals. We will open a 1-800 tip line and post a reward schedule for successful transactions so customers can alert us to small opportunity purchases, such as local business closures.

- Feedback from the frontlines. Since becoming CEO in February, I've met privately with store managers from our top-performing locations in what was our first annual CEO's Conference so I could listen and speak directly to our key managers on the frontlines. I also joined one of our recent buying trips to Asia, where the opportunity for the company in cancelled orders, manufacturing overruns and potential bankruptcies in the world's largest consumer goods manufacturing markets is staggering.

I strongly believe that by putting these plans into action, we can better position the company not only to take advantage of the current popularity among shoppers for extreme value and bargain shopping, but to use the expertise of our staff to our best advantage and manage our inventory better.

Since my appointment in February, I've had the pleasure of meeting many of our key managers and top performers. As a long-time company employee myself, I take great pride in Liquidation World and its people, who have met and embraced change in the past and show the same attitude today. I am also encouraged by the support of our customers for our business and the need for our company in a market of increasingly larger retailers that are less flexible than we are and who create all sorts of opportunities for our business in inventory and real estate.

As always, we appreciate your continued support and belief in our business and look forward to a promising future.

JONATHAN HILL
President and CEO

m d & a

The following discussion and analysis is effective as of May 11, 2005 and should be read together with the unaudited interim consolidated financial statement and the accompanying notes.

OVERVIEW

Liquidation World Inc. ("Liquidation World" or the "Company") is the largest liquidator of opportunity inventory in Canada, with additional liquidation outlets in the US and supporting ancillary services in Canada and the US. Opportunity inventory results from a myriad of situations including insolvencies, insurance claims, overruns, cancelled orders and close-outs. Liquidation World distributes such acquired inventory to value-oriented consumers through its 105 corporately operated outlets (91 in Canada and 14 in the US). Liquidation World is pursuing a strategy to increase profitability by increasing sales in existing outlets and in the longer term by expanding the number of outlets. In order to increase sales in outlets, the Company is increasing its buyer network, seeking new sources of desirable inventory and implementing a merchandise management system to provide greater insight into inventory and its performance. Management believes that sales can be increased with modest increases in costs, resulting in improved overall performance. To increase profitability, the Company also initiated the "Brilliance in the Basics" plan whereby it seeks to achieve operational excellence through focusing on basic principles of the business and improving infrastructure, including distribution and technology systems.

OPERATING STRATEGY

Over the next several years, Liquidation World's operating strategy will focus on the following:

1. Geographic Growth

Liquidation World’s strategy is to acquire leases in geographic locations suitable to the Liquidation World business model. No outlets were opened in Q2 2005, and one outlet (Waterloo) was closed during the period. Subsequent to the end of the quarter, an outlet was opened in Renfrew, Ontario. The Company will explore new opportunities as they arise. Currently 4 new stores are planned to be opened in Q3, 2005.

2. Improve The Shopping Experience

Liquidation World will adopt a fresh look and feel to all new outlets. The new outlets consist of an inviting exterior, a well lit interior, as well as greater interior signage to further convey our brand message. The Company feels that these changes will result in an overall improved shopping experience, and thus increase sales. During the course of the year Liquidation World plans to update a number of stores to reflect the new Liquidation World look. The Company is very pleased with the results of the renovation prototype outlet in Brantford, Ontario (which saw upgraded fixtures, signage, lighting and flooring), and believes that testing the hypothesis that sensible investing in established markets will result in increased sales. To that end, Liquidation World is upgrading the three stores in the key Calgary market through “Extreme Makeover: Liquidation World” initiative. The Company will evaluate the results as soon as possible following completion of the work and use the project as a template to create a schedule of store improvements.

3. Restructure Buying Group

Liquidation World customers expect new deals every shopping trip and an ever changing assortment of merchandise. To that extent, the Company has reorganized its buyers in such a way as to take advantage of their different strengths and skills and the two major types of buys it transacts. On the one hand, a team of buyers will focus on traditional sources of supply—namely, inventory close-outs. Each buyer is now responsible for specific product categories and will play a more integrated role in inventory management, planning, analysis, marketing, merchandising, competitive analysis, global sourcing and purchasing.

At the same time, a dedicated business development team has been created, whose members have expertise in finding and handling the "event deals," such as bankruptcies and insurance claims, that drive the business. They will focus on finding these deals to ensure outlets have a steady steam of events for their customers.

4. Strengthen the Liquidation World Brand

Liquidation World enjoys a unique retail heritage. The Company will strive to update and reinforce its points of differentiation in a competitive environment where discount retailing has become mainstream. Through newspapers, flyers, radio and other media, the Company will continue to promote its distinctive brand by emphasizing the unique source of its merchandise, as well as its quality, variety, and extreme value. The Company will also work to enhance the shopping experience through improved in-store signage and marketing collateral. Strengthening the brand will result in increased customer count, heightened consumer awareness and enhanced perception.

5. Implement a New Merchandise Management System

During fiscal 2005 and 2006 Liquidation World plans to invest $10 million in a new merchandise management system to support its purchasing, marketing and merchandising teams. The new system will enable the organization to improve tracking of inventory from sourcing, to distributing, to selling. Liquidation World will leverage the new merchandise management system to provide its customers with greater variety of inventory and offer a better value proposition through improved inventory management. A scan based inventory system will reduce costs in outlets by the elimination of ticketing inventory and enable faster checkouts. The system will also provide the ability to manage markdowns in a more targeted and effective way.

Liquidation World has incurred $1.3 million of costs in fiscal 2005. The Company plans to have all of the new cash registers installed by the end of the fiscal year, as well as the Ontario Distribution Centre up and running.

RESULTS OF OPERATIONS

Revenue

Revenue, which includes sales of merchandise and fee revenue, totaled $39,367,000 for the 13 weeks ended April 3, 2005, a 9.8% decrease from $43,668,000 in the corresponding period in fiscal 2004. The Company operated, on average, six (6.1%) more outlets than in Q2 of fiscal 2004 and experienced a 15.1% decrease in average sales per outlet. The decrease in average sales per outlet in Q2 2005 is primarily attributed to the lack of a "big event" such as a bankruptcy or insurance claim and a slow down in purchasing in December, which led to a period with limited new inventory in Q2. During the same period last year the Company liquidated a cookware deal and the remainder of a large bedding deal, which contributed approximately $4.5 million in revenue. "Big events" typically create excitement in the stores, which increase traffic and overall sales. Revenues in Canada decreased 10.4% to $33,492,000 in Q2 2005 compared to $37,408,000 in Q2 2004 through, on average, 90 outlets (2004 Q2 - 85 outlets). Revenues in the United States decreased 6.2% to $5,875,000 (USD $4,806,000) in Q2 2005, from $6,260,000

(USD $4,755,000) in Q2 2004 through, on average, 14 outlets (2004 Q2 - 13 outlets). The decline in U.S. revenue is a result of conversion to Canadian dollars, which has strengthened 6.9% year over year. The second quarter is the weakest quarter for revenue and typically accounts for 23% of annual revenue. On a cumulative basis, revenue for the 26 weeks ended April 3, 2005 decreased 3.4% to $91,052,000 from $94,230,000 in the same period in fiscal 2004.

Gross Margin

Gross margin in Q2 2005 declined as a percentage of sales to 20.6% from 39.5% in Q2 2004. The significant decline in gross margin is attributed to low margins on certain deals and markdowns applied to slow moving inventory, combined with an inventory write-down of $3.2 million. Gross margin in Q2 2005 prior to the $3.2 million write-down was 28.8%. On a cumulative basis gross margin in fiscal 2005 declined as a percentage of sales, for the above mentioned reasons, to 31.1% compared to fiscal 2004 of 39.5%.

Financial results during this quarter include a significant charge for inventory write-downs. As other plans are implemented, the Company must also become more disciplined in recognizing under-performing inventory and the cost associated with carrying these goods, in terms of the financial repercussions and reputation among customers.

While the Company may continue to face some pressure on margins in the short term, management believes the most significant adjustments have been made, and remain committed to improving margins through better planning, ongoing monitoring and increased accountability.

Selling and Store Operations

During Q2 2005, selling and store operations, which include all costs of occupying and operating outlets and opening new outlets, increased as a percentage of sales to 36.4% ($14,346,000) from 32.6% ($14,209,000) in Q2 2004. Selling and store operations increased 0.8% as the Company operated 6.1% more outlets, but was mostly offset by cost control measures implemented because of reduced revenues experienced. On a cumulative basis, selling and store operations increased as a percentage of sales to 33.5% ($30,520,000) in 2005 compared to 30.7% ($28,899,000) in 2004. In addition to the above reasons, the increase is the result of generally higher store labour and additional marketing initiatives experienced in the first quarter.

General and Administrative Expenses

During Q2 2005, general and administrative expenses increased as a percentage of sales to 6.4% ($2,539,000) compared to 4.1% ($1,771,000) in Q2 2004. General and administrative expense increases relate to severance obligations to a former Co-CEO and others where positions were eliminated ($640,000) and preparations to implement a merchandise management system (“MMS”). On a cumulative basis, general and administrative expenses increased as a percentage of sales to 4.9% ($4,437,000) from 3.7% ($3,499,000) primarily as a result of severance costs and MMS implementation costs indicated above. In fiscal 2005, the Company expects general and administrative expenses to increase as a percentage of revenue as increased costs associated with the implementation of a merchandise management system are absorbed.

Depreciation and Amortization

Depreciation and amortization increased 48.2% to $451,000 in Q2 2005 compared to $305,000 in Q2 2004 reflecting the balances of the underlying capital assets. During Q2 2005 the Company invested $1,540,000 in capital assets. A significant portion of the investment is attributable to building the infrastructure for the new MMS. The remainder was invested in equipment upgrades and renovation of existing stores. The corollary increases in depreciation and amortization and comparative capital assets are not perfect due to the timing of store openings and asset acquisitions in the quarter. On a cumulative basis, depreciation and amortization increased 36.8% to $838,000 from $613,000 in 2004 reflecting an increase in capital assets of $2,722,000 in the first half of 2005.

Income Taxes

The effective tax recovery rate of 27.8% in the first half of 2005 is lower than the statutory tax rate in effect during the period (36.1%) due primarily to losses in subsidiaries where potential tax recovery is uncertain. The Company provided for current income tax recoveries in the first half of 2005 of $2,128,000 against Canadian income. The Company did not recognize a tax recovery related to losses in the US as there is no certainty that US tax losses will be utilized in the future. In the first half of 2005, the Company recorded a future tax expense of $32,000 arising from the difference between the book value of its capital assets and the tax value of the assets. The effective tax rate of 36.7% in the first half of 2004 is equivalent to the statutory tax rate in effect during the period (38.5%) except for small timing differences and non deductible amounts.

Earnings from Continuing Operations

During Q2 2005, net earnings from continuing operations decreased to a loss of $6,511,000 ($0.77 per share) from $615,000 ($0.07 per share) in Q2 2004, as a result of reduced revenues, reduced gross margins, the write off of inventory, and increased expenses for severance and the MMS implementation project as discussed above. On a cumulative basis, earnings from continuing operations decreased to a loss of $5,572,000 ($0.66 per share) from earnings of $2,547,000 ($0.31 per share) in the first half of 2004.

Discontinued Operations

During the 2004 fiscal year, the Company sold the business operations of Clear Thinking Group, Inc. ("CTG") to a company controlled by CTG's former principals. Accordingly, its operating results have been removed from the consolidated results of the Company and presented as discontinued operations in Q2 2004 results. Net results indicate earnings of $45,000 from discontinued operations in Q2 2004 and a loss of $107,000 on a cumulative basis.

Net Earnings

Net earnings in Q2 2005 decreased to a net loss of $6,511,000 ($0.77 per share) from net earnings of $660,000 ($0.08 per share) in Q2 2004. The decrease is the result of reduced revenues, reduced gross margins, the write-off of inventory and increased expenses for severance obligations and the MMS implementation project as discussed above. On a cumulative basis, and for the same reasons, net earnings decreased during the first half of 2005 to a loss of $5,572,000 ($0.66 per share) from earnings of $2,547,000 ($0.30 per share) during the first half of 2004.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations has been the primary funding source for working capital requirements and capital expenditures over the past several years. Cash flows from operations before discontinued operations decreased by $525,000 to a use of $6,499,000 in Q2 2005 compared with a use of $5,974,000 in Q2 2004. The decrease in cash flow from operating activities was mostly due to the net loss from operations discussed above. Working capital decreased to $44,084,000 at the end of Q2 2005 compared to $51,469,000 at the end of fiscal 2004. The decrease is a result of a write-down of inventory of $3,200,000 and cash required for capital expenditures and to repurchase shares. The Company currently has short-term borrowing facilities totaling $15,000,000, which is sufficient for planned expansion in 2005, including a reserve for potential inventory acquisitions. During the first half of 2005, the Company did not repurchase and cancel any common shares pursuant to its normal course issuer bid (which recently expired). The Company is applying to renew its normal course issuer bid. The Company incurred capital expenditures net of disposals of $2,722,000 during the first half of 2005 ($477,000 during the first half of 2004) to provide fixtures and equipment and make necessary leasehold improvements to new facilities and upgrade or provide equipment to existing locations. During 2005, the Company expects to invest approximately $10,000,000 in infrastructure upgrades. The Company intends to enter a lease arrangement for a significant portion of this expenditure with the balance financed through short term borrowings and cash flow from operations.

Contractual Obligations

Payments due by period (amounts in 000's)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
CONTRACTUAL OBLIGATIONS					
Operating leases	$ 42,599	$ 9,308	$ 14,507	$ 8,875	$ 9,909
Purchase obligations	Nil	Nil	Nil	Nil	Nil
Other long term obligations	Nil	Nil	Nil	Nil	Nil
Total contractual obligations	$ 42,599	$ 9,308	$ 14,507	$ 8,875	$ 9,909

RISKS AND UNCERTAINTIES

The Company is exposed to various risk factors and uncertainties that may affect the performance of the Company. The Risks and uncertainties faced by the Company are disclosed in the MD&A section of its 2004 Annual Report.

Quarterly Information

(Amounts in 000's except per share amounts)

Quarter ended	April 3 2005	January 2 2005	October 3 2004	July 4 2004
Total revenue	$ 39,367	$ 51,685	$ 45,199	$ 44,989
Net earnings (loss) from continuing operations	(6,511)	939	(533)	823
Earnings (loss) per share				
Basic	(0.77)	0.11	(0.05)	0.10
Fully diluted	(0.77)	0.11	(0.05)	0.10
Net income (loss)	$ (6,511)	$ 939	$ (476)	$ 221
Earnings (loss) per share from continuing operations				
Basic	(0.77)	0.11	(0.05)	0.03
Fully diluted	(0.77)	0.11	(0.05)	0.03

Quarter ended	April 4 2004	January 4 2004	October 5 2003	July 6 2003
Total revenue	$ 43,668	$ 50,562	$ 41,999	$ 41,856
Net earnings (loss) from continuing operations	615	2,039	2,590	(1,584)
Earnings (loss) per share				
Basic	0.07	0.24	0.30	(0.19)
Fully diluted	0.07	0.24	0.30	(0.19)
Net income (loss)	$ 660	$ 1,887	$ 2,237	$ (1,505)
Earnings (loss) per share from continuing operations				
Basic	0.08	0.22	0.26	(0.17)
Fully diluted	0.07	0.22	0.26	(0.17)

Transactions with Related Parties

The Corporation leases three buildings (22,000 square feet, 34,000 square feet and 20,000 square feet) for three of its retail locations from a company owned by Dale Gillespie, Founder and Chairman Emeritus of the Corporation, and from a partnership where the same company is a partner. Liquidation World was offered the opportunity to purchase the properties but decided not to own real estate at that time. Base rents for each of these three buildings approximate $61,000 per year to 2005, $111,000 per year to 2008 and $73,000 per year to 2013, respectively, which are considered to be equal to or less than market rates.

Other Items

Additional information relating to Liquidation World is available on the SEDAR website at www.sedar.com.

Outstanding Share Data

As of May 11, 2005, the Company has authorized for issuance unlimited common shares of which 8,383,022 are issued and outstanding. Further, the Company has reserved 765,084 options to acquire common shares of which 407,000 are outstanding.

OUTLOOK

The Company intends to build on its dominance as Canada's largest liquidator. The focus for the current year is to increase sales in existing outlets, ensure established standards are met at outlets and ensure infrastructure will accommodate future growth. To that end, the Company initiated its "Brilliance in the Basics" campaign whereby standards for outlet presentation are set but much of the operations of the outlets are left up to the entrepreneurial outlet manager who will focus on increasing sales while keeping costs under control. The Company is also assessing its current processes and information systems to optimize the efficiency in handling and managing inventory from sourcing through to sale and emulating those processes in the information system.

With confidence in its infrastructure, the Company will aggressively seek opportunities for growth through opening new outlets and broadening its reach to acquire the greatest possible value proposition available to consumers in all the markets the Company services.

FORWARD-LOOKING STATEMENTS

The foregoing includes forward-looking statements and potential future circumstances and developments. Forward-looking statements regarding future performance are subject to risks and uncertainties and actual results may differ materially.

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

For the periods ended April 3, 2005 and October 3, 2004 (In thousands of Canadian dollars, except per share amounts)	05 April 3 2005	04 October 3 2004
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	**$ 202**	$ 876
Accounts receivable	**313**	1,221
Inventory (note 3)	**47,357**	55,705
Prepaid expenses	**1,803**	2,281
Income taxes recoverable	**2,901**	–
	52,576	60,083
Property and equipment	**7,650**	5,766
	$ 60,226	$ 65,849
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	**$ 1,790**	$ –
Accounts payable and accrued liabilities	**6,702**	7,706
Income taxes payable	**–**	863
Liabilities of discontinued operations	**–**	45
	8,492	8,614
Future income taxes	**290**	258
Shareholders' equity		
Share capital	**15,759**	15,757
Contributed surplus	**410**	–
Retained earnings	**35,275**	41,220
	51,444	56,977
	$ 60,226	$ 65,849

See accompanying notes to consolidated financial statements.

On behalf of the Board:

JONATHAN HILL
Director

HERB LUKOFSKY
Director

CONSOLIDATED STATEMENTS OF EARNINGS & RETAINED EARNINGS

For the periods ended April 3, 2005 and April 4, 2004 (unaudited) (In thousands of Canadian dollars, except per share amounts)	05 13 weeks ended April 3, 2005	04 13 weeks ended April 4, 2004	05 26 weeks ended April 3, 2005	04 26 weeks ended April 4, 2004
REVENUE	**$ 39,367**	$ 43,668	**$ 91,052**	$ 94,230
Cost of sales (note 3)	**31,239**	26,437	**62,759**	57,010
	8,128	17,231	**28,293**	37,220
EXPENSES				
Selling and store operations	**14,346**	14,209	**30,520**	28,899
General and administrative	**2,539**	1,771	**4,437**	3,499
Depreciation and amortization	**451**	305	**838**	613
Stock based compensation	**70**	–	**139**	–
Interest	**13**	–	**13**	–
Foreign exchange	**9**	31	**14**	15
	17,428	16,316	**35,961**	33,026
Earnings (loss) from continuing operations before income taxes	**(9,300)**	915	**(7,668)**	4,194
Income taxes				
Current (recovery)	**(2,823)**	300	**(2,128)**	1,540
Future	**34**	–	**32**	–
	(2,789)	300	**(2,096)**	1,540
Earnings (loss) from continuing operations	**(6,511)**	615	**(5,572)**	2,654
Discontinued operations	**–**	45	**–**	(107)
Net earnings (loss)	**(6,511)**	660	**(5,572)**	2,547
Retained earnings, beginning of period	**41,785**	41,585	**41,220**	39,700
Excess of repurchase amount over stated capital of repurchased shares	**–**	–	**(102)**	(2)
Adjustment to reflect change in accounting policy (note 2)	**–**	–	**(271)**	–
Retained earnings, end of period	**$ 35,274**	$ 42,245	**$ 35,275**	$ 42,245
Earnings (loss) per share from continuing operations				
Basic	**$ (0.77)**	$ 0.07	**$ (0.66)**	$ 0.31
Fully diluted	**$ (0.77)**	$ 0.07	**$ (0.66)**	$ 0.31
Earnings (loss) per share				
Basic	**$ (0.77)**	$ 0.08	**$ (0.66)**	$ 0.30
Fully diluted	**$ (0.77)**	$ 0.08	**$ (0.66)**	$ 0.30
Shares outstanding at period end	**8,381,942**	8,553,056	**8,381,942**	8,553,056
Weighted average shares outstanding	**8,374,166**	8,544,986	**8,384,294**	8,543,865
Diluted shares outstanding	**8,414,542**	8,644,083	**8,435,699**	8,614,052
Options outstanding at period end	**418,500**	465,600	**418,500**	465,600

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended April 3, 2005 and April 4, 2004 (unaudited) (In thousands of Canadian dollars, except per share amounts)	05 13 weeks ended April 3, 2005	04 13 weeks ended April 4, 2004	05 26 weeks ended April 3, 2005	04 26 weeks ended April 4, 2004
Cash provided by (used in):				
CONTINUING OPERATIONS				
Earnings (loss) from continuing operations	**$ (6,511)**	$ 615	**$ (5,572)**	$ 2,654
Add (deduct) non-cash items:				
Depreciation and amortization	**451**	305	**838**	613
Equity in income of affiliate	**–**	(20)	**–**	(56)
Stock based compensation	**70**	–	**139**	–
Future income taxes	**34**	–	**32**	–
	(5,956)	900	**(4,563)**	3,211
Changes in non-cash operating working capital				
Accounts receivable	**24**	117	**908**	(61)
Inventory	**2,581**	(5,572)	**8,348**	(6,525)
Prepaid expenses	**98**	(347)	**478**	694
Accounts payable and accrued liabilities	**(83)**	(1,121)	**(1,004)**	(2,060)
Income taxes	**(3,163)**	49	**(3,764)**	1,162
	(6,499)	(5,974)	**403**	(3,579)
DISCONTINUED OPERATIONS				
Funds provided by (used in) discontinued operations	**–**	45	**–**	(107)
Changes in non-cash operating working capital balances of discontinued operations				
Assets of discontinued operations	**–**	50	**–**	438
Liabilities of discontinued operations	**–**	(69)	**(45)**	(78)
	–	26	**(45)**	253
INVESTMENTS				
Purchase of property and equipment	**(1,540)**	(331)	**(2,722)**	(477)
FINANCING				
Increase in bank indebtedness	**1,790**	–	**1,790**	–
Proceeds on issuance of common shares	**52**	58	**56**	58
Repurchase of common shares	**–**	–	**(156)**	(3)
	1,842	58	**1,690**	55
Decrease in cash	**(6,197)**	(6,221)	**(674)**	(3,748)
Cash and cash equivalents, beginning of period	**6,399**	6,967	**876**	4,494
Cash and cash equivalents, end of period	**$ 202**	$ 746	**$ 202**	$ 746
Supplemental disclosure of cash paid for:				
Income taxes	**$ 327**	$ 281	**$ 1,615**	$ 561
Interest	**13**	–	**13**	–
	$ 340	$ 281	**$ 1,628**	$ 561

notes

TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIODS ENDED APRIL 3, 2005 AND APRIL 4, 2005
(AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED

1. BASIS OF PRESENTATION:

The accompanying unaudited consolidated financial statements for Liquidation World Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. The financial information included herein is unaudited. These interim financial statements follow the same accounting policies and methods of application as the most recent annual audited financial statements dated October 3, 2004 except as to the accounting policy for stock-based compensation (note 2). The disclosures herein are incremental to those included within the annual financial statements. These interim financial statements should be read in conjunction with the annual statements.

2. CHANGE IN ACCOUNTING POLICY:

Prior to October 4, 2004, the Company applied the fair value based method of accounting, only to stock options granted to non-employees, and applied the intrinsic value method of accounting to employee stock options. Under the intrinsic value method, any consideration paid by employees on the exercise of stock options or purchase of stock was credited to share capital and no compensation expense was recognized.

Effective October 4, 2002, the Company adopted the fair value based method for all stock based compensation. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award’s vesting period. In accordance with one of the transitional provisions permitted, the Company has retroactively applied the fair value based method to all employee stock options granted on or after October 7, 2002 and prior to October 4, 2004. The Company has not restated prior year’s reported amounts, and accordingly, has adjusted 2004 opening retained earnings at October 4, 2004 by $271 and contributed surplus by the same amount. Options granted in fiscal 2005 are expensed in the current financial statements in accordance with the standard previously described.

3. INVENTORY:

During the quarter, the Company initiated a new operating strategy to deal with aged and certain other inventory whereby accelerated markdowns are applied to encourage more timely sales and increased inventory turnover. The application of this initiative results in reduced gross margins and a lower estimated realizable value for ending inventory. At April 3, 2005 the estimated value of inventory was reduced by $3,200, reflecting this estimated reduction in net realizable value of ending inventory.

4. SHARE CAPITAL:

(a) Issued and outstanding:

	Number of Shares	Amount
Balance, October 3, 2004	8,398,582	$ 15,757
Issued on exercise of share options	12,160	56
Shares repurchased	(28,800)	(54)
	8,381,942	$ 15,759

(b) Stock Options:

	Number of Options	Amount
Stock options outstanding, October 3, 2004	564,400	$ 6.15
Exercised	(12,160)	4.62
Cancelled/expired	(133,740)	6.51
	418,500	$ 6.07

5. SEGMENTED INFORMATION:

(unaudited) (In thousands of Canadian dollars, except per share amounts)	13 weeks ended April 3, 2005	13 weeks ended April 4, 2004	26 weeks ended April 3, 2005	26 weeks ended April 4, 2004
REVENUE				
Canada	**$ 33,492**	$ 37,408	**$ 77,790**	$ 81,113
United States	**5,875**	6,260	**13,262**	13,117
Total	**$ 39,367**	$ 43,668	**$ 91,052**	$ 94,230
PROPERTY AND EQUIPMENT				
Canada			**$ 7,135**	$ 4,521
United States			**515**	475
Total			**$ 7,650**	$ 4,996

6. RELATED PARTY TRANSACTIONS:

The Company leases three buildings for three of its retail locations from a company owned by a former director of the Company and a partnership of which the same company is a partner. Base rents approximate $61 per year to 2005, $111 per year to 2008 and $73 per year to 2013.

corporate information

Directors	LESLIE LANDES, Chairman of the Board, Chairman of Stockgroup Information Systems, Inc., Director of TIR Systems Ltd. ROB BAKSHI, President of Panarim Enterprises, Inc. DARREN GILLESPIE, Senior Executive VP, Liquidation World Inc JONATHAN HILL, President and CEO, Liquidation World Inc HERB LUKOFSKY, CA, Corporate Director, Business Consultant CHARLES M. (CHAD) MURRAY, President of Chad Murray Sales and Marketing, Inc. ROBERT THOMSON, QC, President of Rovalex Investments, Inc.
Management	JONATHAN HILL, President and CEO DARREN GILLESPIE, SEVP, and President Liquidation World (U.S.A.) Inc. ANDREW SEARBY, CA, Executive VP and CFO DERRICK GILLESPIE, VP Merchandising DARRELL FLADAGER, VP US Operations LARRY SCHEFFEE, VP Liquidation World Enterprises TROY HEATH, Director – Eastern Region ZORA ROBERTS, CMA, Controller TERRY OFFORD, Director of Loss Prevention/Internal Audit CHAD RICHARDSON, Director of Information Systems
Solicitors	Phillips Sevalrud LLP 900, 521 - 3rd Avenue SW Calgary, Alberta T2P 3T3
Auditors	KPMG LLP Chartered Accountants 1200, 205 - 5th Avenue SW Calgary, Alberta T2P 4B9
Bank	Royal Bank of Canada 335 - 8th Avenue SW Calgary, Alberta T2P 1C9
Transfer agent	Computershare Investor Services 100 University Avenue, 8th Floor Toronto, Ontario M5J 2Y1
Corporate Office	3900 - 29th Street NE, Calgary, Alberta T1Y 6B6 Phone 403.250.1222 Fax 403.291.1306 Web www.liquidationworld.com

outlet locations

CANADA

ALBERTA
Calgary (3)
Camrose
Cold Lake
Drumheller
Edmonton (4)
Fort Saskatchewan
Grande Prairie
High River
Hinton
Leduc
Lethbridge
Medicine Hat
Peace River
Ponoka
Red Deer
St. Paul
Taber
Wainwright
Westlock

BRITISH COLUMBIA
Aldergrove
Chilliwack
Coquitlam
Courtenay
Cranbrook
Duncan
Gibsons
Kamloops
Kelowna
Langley
Maple Ridge
Mission
North Vancouver
Penticton
Port Alberni
Prince George
Quesnel
Richmond
Surrey
Victoria

MANITOBA
Steinbach
Swan River
Thompson
Winnipeg (2)

ONTARIO
Ajax
Arthur
Belleville
Bleinheim
Bolton
Brantford
Burlington
Cambridge
Campbellford
Cobourg
Hamilton (2)
Hawkesbury
Ingersoll
Keswick
London (2)
Oakville
Orillia
Oshawa
Paris
Peterborough
Prescott
Renfrew
Sarnia
Smith Falls
St. Catherines
Sudbury
Trenton
Uxbridge
Wallaceburg
Welland
Windsor (2)
Woodstock

SASKATCHEWAN
Estevan
Lloydminster
Moose Jaw
Prince Albert
Regina
Saskatoon
Yorkton

USA

ALASKA
Anchorage

IDAHO
Boise
Coeur d'Alene
Lewiston

MONTANA
Great Falls

WASHINGTON
Everett
Kent
Lacey
Renton
Richland
Spokane (2)
Tukwilla
Yakima

Liquidation World has become a destination store for millions of value and quality conscious consumers.

So, who shops at Liquidation World?

High-income treasure hunters searching for unbelievable deals on goods and merchandise unavailable anywhere else.

Those who insist on paying the absolutely lowest price for everything they buy, regardless of their social class or walk of life.

And those on a budget who have to make the most of every dollar they earn.

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Shares are listed on the Toronto Stock Exchange under the symbol LQW.

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